



Topic: **Reservoir Committee Agenda Item 2.1**

August 19, 2022

Subject: **2021 Financial Audit Report**

Requested Action:

Approve the 2021 Financial Auditor's Report.

Detailed Description/Background:

Fechter and Company, CPA, (Fechter) was awarded a contract to conduct audits of the Authority's financial information that included fiscal year 2021.

The 2021 Financial Audit Report, which included a Single Audit, found no significant or reportable findings.

There were no recommended improvements for strengthening internal controls and operation efficiency identified in the 2021 report. The 2021 report notes that the Authority has followed up on the 2020 financial audit and recommended improvements through the development of several financial policies and procedures.

Another change in the 2021 report to note was previously identified as a risk associated with the lack of insurance on the Authority deposits in bank accounts. This item has been resolved. River City Bank confirmed that all funds deposited are insured by FDIC and through their collateralized pool program.

The credit reimbursement liability was reduced from \$8,984,715 in 2020 to \$8,806,665 in 2021.

The audit results were reviewed and accepted by the B&F Committee. The auditor will be making a presentation at the Authority Board meeting and responding to any questions.

Prior Action:

May 2022: Approved a new contract with Fechter to conduct Authority fiscal years 2021, 2022, and 2023 independent annual financial audits that include a federal "Single Audit".

Fiscal Impact/Funding Source:

None.

Staff Contact:

Joe Trapasso

Attachments:

Attachment A – Sites Project Authority Annual Financial Report 2021

Attachment B – Sites Project Authority Management Report 2021

Attachment C - Sites Project Authority Management Representation Letter 2021

Attachment A

**SITES PROJECT AUTHORITY
ANNUAL FINANCIAL REPORT
With
Independent Auditor's Report Thereon
DECEMBER 31, 2021**

SITES PROJECT AUTHORITY

Annual Financial Report
December 31, 2021

Table of Contents

	<u>Page</u>
<u>Introductory Section</u>	
Organization of Authority and List of Board of Directors	1
<u>Financial Section</u>	
Independent Auditor’s Report.....	2-4
Management’s Discussion and Analysis	5-9
Basic Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds.....	12
Statements of Revenues, Expenditures, and Changes in Fund Balances	13
Notes to Basic Financial Statements	14-19
<u>Required Supplementary Information</u>	
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – General Fund	20
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – Reservoir Fund	21
Notes to Required Supplementary Information	22
<u>Other Reports</u>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23-24
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	25-26
Schedule of Expenditures of Federal Awards.....	27
Notes to Schedule of Expenditures of Federal Awards.....	28
Schedule of Findings and Questioned Costs.....	29-30

SITES PROJECT AUTHORITY

Organization of Authority and List of Board of Directors
December 31, 2021

Sites Project Authority (the Authority) was established on August 26, 2010, when seven regional entities, including several local water agencies and Counties, executed the Joint Exercise of Power Agreement. The primary purpose of the Authority, as stated in the agreement, is to pursue the development and construction of the Sites Reservoir Project, which has long been viewed as an ideal location for additional off stream storage to provide direct and real benefits to instream flows, the Delta ecosystem, and water supply. In keeping their commitment to move the project forward on behalf of the region, the Authority has spent the last twelve years working towards this goal by engaging the public, various stakeholders, state and federal agencies and landowners, initiating the required environmental planning process, and conducting feasibility studies, among other efforts.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Member Represented</u>
Fritz Durst	Chair	Reclamation District 108
Jeff Sutton	Vice Chair	Tehama-Colusa Canal Authority
Gary Evans	Member	County of Colusa
Ken Hahn	Member	County of Glenn
Logan Dennis	Member	Glenn-Colusa Irrigation District
Bruce Houdesheldt	Member	Placer County Water Agency
Doug Parker	Member	Westside Water District
Joe Marsh	Member	Colusa County Water District
Kerry Schmitz	Member	Sacramento County Water Agency
Jamie Traynham	Associate Member - Non-Voting	TC 4 Districts
Greg Johnson	Associate Member - Non-Voting	Western Canal Water District
Don Bader	Cost-Share Partner - Non-Voting	U.S. Bureau of Reclamation
Rob Cooke	Ex-Officio - Non-Voting	CA Department of Water Resources

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sites Project Authority
Maxwell, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sites Project Authority (the Authority), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2021, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Directors
Sites Project Authority
Maxwell, California

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-9 and 20-22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial

Board of Directors
Sites Project Authority
Maxwell, California

statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express.

Other Information

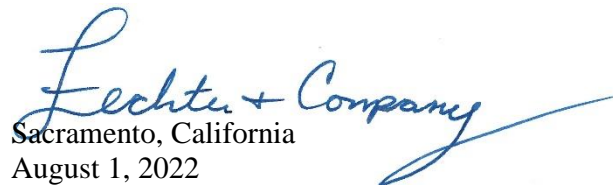
Management is responsible for the other information included in the annual report. The other information comprises the schedule of expenditures of federal awards, presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants


Sacramento, California
August 1, 2022

SITES PROJECT AUTHORITY

Management's Discussion and Analysis December 31, 2021

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Sites Project Authority (the Authority) provides an introduction to the financial statements of the Authority for the year ended December 31, 2021, and a comparison to the prior audited financial statements for the year ended December 31, 2020. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The Authority's assets exceed liabilities by \$12,886,706 as of December 31, 2021.
- The Authority's revenues exceeded expenditures by \$2,827,395 for the year ending December 31, 2021. The Authority's largest expense was for professional services. Professional services were 99% of total expenses for the year ending December 31, 2021.

Required Financial Statements

This annual report consists of a series of financial statements. The *Statement of Net Position* and the *Statement of Activities* provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies.

The *Statement of Net Position* includes all of the Authority's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority. All of the current period's revenue and expenses are accounted for in the *Statement of Activities*. This statement measures the success of the Authority's operations over the past year and can be used to determine if the Authority has successfully recovered all of its costs through its revenues. This statement can also be used to evaluate profitability and credit worthiness.

More detailed information about the Authority's most significant funds – not the Authority as a whole, is provided in the fund financial statements. Funds are accounting devices the Authority uses to keep track of specific sources of funding and spending on particular programs. The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending. The *Statement of Revenues, Expenditures, and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

Financial Analysis of the Authority

One of the most important questions asked about the Authority finances is, "Is the Authority better off or worse off as a result of this year's activities?" The *Statement of Net Position* and the *Statement of Activities* report information about the Authority in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

SITES PROJECT AUTHORITY

Management's Discussion and Analysis December 31, 2021

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State regulations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Statement of Net Position

As discussed earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$12,886,706 and \$10,059,311 as of December 31, 2021 and 2020, respectively.

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Assets			
Cash and investments	\$17,226,150	\$16,454,541	\$ 771,609
Other current assets	5,693,555	5,176,224	517,331
Total Assets	<u>22,919,705</u>	<u>21,630,765</u>	<u>1,288,940</u>
Liabilities			
Current liabilities	10,032,999	11,571,454	(1,538,455)
Total Liabilities	<u>10,032,999</u>	<u>11,571,454</u>	<u>(1,538,455)</u>
Net Position			
Unrestricted	12,886,706	10,059,311	2,827,395
Total Net Position	<u>\$12,886,706</u>	<u>\$10,059,311</u>	<u>\$ 2,827,395</u>

The largest portion, 75%, of the Authority's assets was cash in bank as of December 31, 2021.

Current liabilities decreased from \$11,571,454 as of December 31, 2020, to \$10,032,999 as of December 31, 2021, due primarily to a partial repayment of the Authority's Participant Reimbursement Policy liability.

At the end of fiscal years 2021 and 2020, the Authority showed a positive balance in its unrestricted net position of \$12,886,706 and \$10,059,311, respectively.

SITES PROJECT AUTHORITY

Management's Discussion and Analysis December 31, 2021

Statement of Activities

	<u>2021</u>	<u>2020</u>	<u>Change</u>
General Revenues			
Membership Admin/Authority	\$ 505,000	\$ 492,000	\$ 13,000
Membership - Water	6,654,800	7,470,183	(815,383)
Grant revenue	14,540,276	9,993,210	4,547,066
Interest revenue	33,445	43,154	(9,709)
Other revenue	50,000	1,800	48,200
Total Revenues	<u>21,783,521</u>	<u>18,000,347</u>	<u>3,783,174</u>
Expenses			
Authority/Admin	445,881	499,240	(53,359)
Reservoir	18,510,245	13,340,386	5,169,859
Total Expenses	<u>18,956,126</u>	<u>13,839,626</u>	<u>5,116,500</u>
Change in Net Position	<u>\$ 2,827,395</u>	<u>\$ 4,160,721</u>	<u>\$ (1,333,326)</u>

The *Statement of Activities* shows how the Authority's net position changed during the periods. In the case of the Authority, net position increased by \$2,827,395 for the year ending December 31, 2021, and increased by \$4,160,721 for the year ending December 31, 2020, respectively.

A closer examination of the sources of changes in net position reveals that:

Total revenue increased by \$3,783,174 from the year ending December 31, 2020 to the year ending December 31, 2021, due to additional revenue received from grants, including a retention release from the California Water Commission Early Funding Agreement.

Total expenses increased by \$5,116,500 from the year ending December 31, 2020, to the year ending December 31, 2021, to match the Authority's scope of work in 2021. Authority/Admin expenses comprised 2.35% and 3.61% of total expenses for the years ending December 31, 2021 and 2020, respectively. Reservoir expenses comprised 97.65% and 96.39% of total expenses for the years ending December 31, 2021 and 2020, respectively.

General Fund Budgetary Highlights

The Authority's total budget for the General Fund for the year ended December 31, 2021, showed excess revenues over expenditures of \$0 compared to the actual amount of \$60,409.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues	\$ 506,290	\$ 505,000	\$ 1,290
Operating Expenses	445,881	505,000	(59,119)
Net Increase	<u>\$ 60,409</u>	<u>\$ -</u>	<u>\$ 60,409</u>

SITES PROJECT AUTHORITY

Management's Discussion and Analysis
December 31, 2021

Conditions Affecting Current Financial Position

The Authority continues to plan and expand project activities to build the large water infrastructure project. Expanding activities results in a continuation of increases to the annual financial budgets.

The California Water Commission's (CWC) Early Funding Agreement (EFA) with the Authority was approved mid-2019 for the maximum amount payable by the State to not exceed \$40,818,884 for activities reasonably related to the completion of environmental documentation and permitting. In 2021, the Authority processed and received State payments of \$11,486,720 towards the not to exceed amount for eligible activities. In February of 2021, the CWC increased the Maximum Conditional Eligibility Determination to consider inflation. This did not impact the EFA amount. In December of 2021, the CWC determined the Sites Reservoir Project to be feasible and remained eligible for continued funding under the Water Storage Investment Program.

A Federal Financial Assistance Agreement (FAA) with the Authority Pursuant to the Water Infrastructure Improvements for the Nation (WIIN) Act was approved in August 2020 for a maximum amount payable by the Federal Government to not exceed \$3,000,000 for activities to advance work on the Environmental Impact Statement (EIS) and Environmental Impact Report (EIR) for the Project and obtain various permits and regulatory authorizations before beginning project construction for the Sites Reservoir Project. In 2021, the Authority processed and received Federal payment of \$2,341,908 towards the not to exceed amount for eligible activities. In November of 2021, an amendment to this FAA was executed, increasing the not to exceed amount payable by the Federal Government by \$3,554,922 from \$3,000,000 to \$6,554,922.

The current phase of the project is anticipated to be completed by December 31, 2024, and is funded through a Participants' cash call and additional received EFA and FAA dollars. The Authority is planning to complete a one-year review of the plan for this phase of the project during the 4th Quarter of 2022.

Future Plans for the Sites Reservoir Project

As an ongoing part of the EFA and FAA funding process, the Authority will continue to prepare and submit invoices for payment on a quarterly basis. In addition, the Authority is currently preparing an amendment to the existing FAA and a new FAA for additional WIIN funding. Further, in 2021, the Sites Project Authority was invited to apply for a considerable Water Infrastructure Finance and Innovation Act Loan with the Environmental Protection Agency and will apply for said loan in the remainder of Phase 2.

The Authority will continue to expand its governance and member participation.

The Authority has developed a detailed work plan and financing plan for the remainder of Phase 2 through December 31, 2024.

The remainder of work in Phase 2 will include key activities such as completing the Final EIR/EIS, complete and obtain key environmental permits and initiate secondary permits for construction and operations, secure water right Order and Permit from the State Water Resources Control Board, and complete engineering design to 30% level and, as needed, further facility designs to receive permits and approvals required.

SITES PROJECT AUTHORITY

Management's Discussion and Analysis
December 31, 2021

Requests for Information

This financial report is designed to provide the Authority's funding sources, customers, stakeholders, and other interested parties with an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Authority's Treasurer at P.O. Box 517, Maxwell, California 95955 or view the website of the Authority at www.sitesproject.org.

**SITES PROJECT AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

ASSETS

Cash and investments	\$ 17,226,150
Grants receivable	5,670,505
Prepaid expenses	<u>23,050</u>

TOTAL ASSETS 22,919,705

LIABILITIES

Accounts payable	1,226,334
Participant reimbursement policy	<u>8,806,665</u>

TOTAL LIABILITIES 10,032,999

NET POSITION

Unrestricted	<u>12,886,706</u>
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NET POSITION \$ 12,886,706

The accompanying notes are an integral part of these financial statements.

**SITES PROJECT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021**

GOVERNMENTAL ACTIVITIES:

EXPENSES:

Authority/Admin	\$ 445,881
Reservoir	<u>18,510,245</u>
 Total expenses	 <u>\$ 18,956,126</u>

GENERAL REVENUES:

Membership Admin/Authority	\$ 505,000
Membership Water	6,654,800
Grant revenue	14,540,276
Interest revenue	33,445
Other revenue	<u>50,000</u>
 Total general revenues	 <u>21,783,521</u>
 Change in net position	 2,827,395
 Net position, beginning of fiscal year	 <u>10,059,311</u>
 Net position at end of fiscal year	 <u><u>\$ 12,886,706</u></u>

The accompanying notes are an integral part of these financial statements.

**SITES PROJECT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	General Fund - Authority	Special Revenue - Reservoir	Total
ASSETS			
Cash and investments	\$ 545,818	\$ 16,680,332	\$ 17,226,150
Grants receivable	-	5,670,505	5,670,505
Prepaid expenses	17,966	5,084	23,050
	\$ 563,784	\$ 22,355,921	\$ 22,919,705
LIABILITIES			
Accounts payable	\$ 38,106	\$ 1,188,228	\$ 1,226,334
Participant reimbursement policy	-	8,806,665	8,806,665
	38,106	9,994,893	10,032,999
FUND BALANCES			
Fund balance:			
Assigned to development of the reservoir	-	12,361,028	12,361,028
Unassigned	525,678	-	525,678
	525,678	12,361,028	12,886,706
TOTAL LIABILITIES AND FUND BALANCES	\$ 563,784	\$ 22,355,921	\$ 22,919,705

The accompanying notes are an integral part of these financial statements.

SITES PROJECT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund - Authority	Special Revenue - Reservoir	Total
REVENUES			
Membership Admin/Authority	\$ 505,000	\$ -	\$ 505,000
Membership Water	-	6,654,800	6,654,800
Grant revenue	-	14,540,276	14,540,276
Interest revenue	1,290	32,155	33,445
Other revenue	-	50,000	50,000
	<hr/>	<hr/>	<hr/>
Total revenues	506,290	21,277,231	21,783,521
EXPENDITURES			
Current:			
Accounting services	6,699	26,794	33,493
Audit fees	4,811	11,049	15,860
Administrative support	14,643	58,574	73,217
Insurance	4,672	-	4,672
Office expenses	7,908	458	8,366
Rent expense	-	7,500	7,500
Dues and Subscriptions	15,868	3,967	19,835
Professional fees	388,049	18,388,981	18,777,030
Website, computer support	3,231	12,922	16,153
	<hr/>	<hr/>	<hr/>
Total expenditures	445,881	18,510,245	18,956,126
Net changes in fund balances	60,409	2,766,986	2,827,395
Fund balances, beginning of year	<hr/>	<hr/>	<hr/>
	465,269	9,594,042	10,059,311
Fund balances, end of year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 525,678	\$ 12,361,028	\$ 12,886,706

The accompanying notes are an integral part of these financial statements.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Sites Project Authority (the Authority) was established as an independent special agency in August of 2010 under the Joint Exercise of Powers Act, California Government Code, Section 6500.

As of December 31, 2021, 11 public entities, filling 9 Board seats with 2 government agencies serving ex-officio positions and 2 Associate Members, were approved members of the Authority as follows:

Reclamation District 108	Westside Water District
Placer County Water Agency/ City of Roseville	Colusa County Water District
County of Colusa	Sacramento County Water Agency/ City of Sacramento
County of Glenn	California Department of Water Resources
Glenn-Colusa Irrigation District	TC 4 Districts (Associate Member)
Tehama-Colusa Canal Authority	Western Canal Water District (Associate Member)
U. S. Bureau of Reclamation	

The Authority is a public entity special district and therefore, falls under the reporting guidelines of a special district governmental entity as outlined by the California State Controller's Office. The Authority is governed by a board of directors that consists of one representative of each member.

The Authority was developed with the purpose to effectively study, promote, develop, design, finance, acquire, construct, manage, and operate Sites Reservoir and the related facilities. The purpose of pursuing and developing the Sites Reservoir are to: (a) increase surface water storage and enhance water management flexibility in the Sacramento Valley, (b) provide flood control benefits, (c) improve conditions for fish and wildlife in the Sacramento Valley, (d) improve the operation of the State's water system, and (e) increase opportunities for recreational activities.

Financial Statement Presentation: The *Statement of Net Position* and *Statement of Activities* display information about the primary government (the Authority). These statements include the financial activities of the overall government. These statements report the governmental activities of the Authority, which are normally supported by inter-governmental revenues. The Authority had no business-type activities as of and for the year ended December 31, 2021.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include operating grants. Revenues that are not classified as program revenues are presented instead as general revenues.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund financial statements of the Authority are organized into one fund which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. The Authority reports two funds, the General Fund, which accounts for all revenues and expenditures necessary to carry out the administrative activities of the Authority, and the Reservoir Fund, a special revenue fund used to account for specific work activities for the development of the Sites Reservoir Project and is funded by contributions from the Project Agreement Members.

Basis of Accounting and Measurement Focus: Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations.

Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Charges for services, operating grants, and use of money and property are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Cash: The Authority's cash includes demand deposits. The Authority had no investments during the year ending December 31, 2021.

The governing board has not formally adopted any deposit and investment policies that limits the Authority's allowable deposits or investments and addresses the specific type of risk to which the Authority is exposed.

Due from Other Governments: Amounts due from other governments represent amounts due from member agencies that has been earned but not received by the end of the period.

As of December 31, 2021, the Authority has determined that all amounts are collectable and therefore, no doubtful account allowance was deemed necessary as of December 31, 2021.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets: The Authority defines capital assets as property, plant, equipment, and infrastructure assets with an initial individual cost of \$5,000 and a useful life of three years or more. As of December 31, 2021, the Authority had no capital assets.

Unearned Revenue: This represents amounts received from members that will be applied to future billings.

Revenue: The Authority's revenue is comprised of the following:

General Fund – Authority Revenue

Authority members pay an annual membership fee which is established by the Authority. The membership fee for 2021 was \$55,000 per member.

Special Revenue – Reservoir Fund

Revenue is recognized according to the Project's board-approved operating budget for each phase of the Project. The Project Agreement Members are billed in accordance with their pro-rata share of the budgeted costs for activities undertaken pursuant to the Project Agreement.

To withdraw from this Project Agreement, a Project Agreement Member shall give the Authority and other Project Agreement Members written notice of such withdrawal not less than 30 days prior to the withdrawal date. As of the withdrawal date, all rights of participation in this Project Agreement shall cease for the withdrawing Project Agreement Member. The financial obligation as prescribed in the Bylaws' Section 5.10 in effect on the withdrawal date, shall consist of the withdrawing Member's share of the following costs: (a) payment of its share of all non-contract costs incurred prior to the date of the written notice of withdrawal, and (b) those contract costs associated with funds approved.

Government-Wide Net Position:

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Government-wide net position is reported in three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unrestricted – This component consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”, as defined above.

Governmental Fund Balance: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action of the Authority.

Assigned – Amounts that are designated by the Authority to be used for specific purposes, but are neither restricted nor committed. The board of directors has the authority to assign amounts to be used for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Demand Deposits: The carrying amount and the bank balance of the Authority’s cash as of December 31, 2021, were \$17,226,150 and \$17,229,200, respectively. The Federal Deposit Insurance Corporation (FDIC) insures deposits up to \$250,000. As of December 31, 2021, \$16,979,200 was in excess of the insurance coverage.

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The California Government Code and the Authority’s investment policy do not contain legal or policy requirements limiting exposure to custodial risk for deposits or investments. The California Government Code requires that a bank secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure the Authority’s deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2021

NOTE 2: CASH AND INVESTMENTS – CONTINUED

Every account that the Authority has with its bank is either insured through FDIC (through the Demand Deposit Marketplace program) or through the bank’s collateralized pool. Every dollar in the Authority’s funds is insured by one of the programs or pools.

NOTE 3: PROFESSIONAL FEES

Professional fees for the year ended December 31, 2021, consisted of the following:

	General Fund - Authority	Special Revenue - Reservoir	Total
Env/Biological Services	\$ -	\$ 2,792,376	\$ 2,792,376
Bond Counsel	-	92,239	92,239
Bus/Comm Manager	-	261,720	261,720
EPP Manager	-	368,942	368,942
Federal Government Affairs Supp	90,000	90,000	180,000
General Legal Counsel	25,187	26,162	51,349
Geotechnical Engineering	-	1,120,134	1,120,134
Legislative/Reg/Strategic	48,000	48,000	96,000
Program Ops Manager	-	357,677	357,677
Project Controls	-	2,097,756	2,097,756
Project Integration	-	2,798,624	2,798,624
Communication	177,483	255,748	433,231
Cost Development Model	-	3,435	3,435
Cultural Study	-	17,715	17,715
Engineering & Technical Service	-	2,397,873	2,397,873
Engineering Consultation Application	-	(5,000)	(5,000)
Executive Director	-	426,530	426,530
Reservoir Operations	-	313,056	313,056
Special Legal	-	823,878	823,878
Municipal Advisor	-	315,920	315,920
Operations/Simulation Modeling	-	1,468,258	1,468,258
Organizational Assessment	3,071	-	3,071
Strategic Planning	44,308	-	44,308
Permitting & Agreements	-	2,141,668	2,141,668
Project Operations	-	4,375	4,375
Water Rights Legal Counsel	-	171,895	171,895
	<u>\$ 388,049</u>	<u>\$ 18,388,981</u>	<u>\$ 18,777,030</u>

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2021

NOTE 4: RISK MANAGEMENT

The Authority is exposed to various risks and general liabilities. The Authority participates in a public entity risk pool as a member of Association of California Water Agencies Joint Powers Insurance Authority (ACWA-JPIA). Each ACWA-JPIA member agency shares surpluses and deficits proportional to their participation. The Authority pays retrospectively rated annual premiums to ACWA-JPIA for its insurance coverage and has met all obligations since participation began.

NOTE 5: PARTICIPANTS REIMBURSEMENT POLICY

According to the Authority's participants reimbursement policy, the participants who withdrew or decreased their participation in the project are entitled to a credit equal to the contribution they made up to the date of withdrawal or reduction. That credit was applied toward future contribution requirements or booked as a liability on the Authority's books to be paid when it is determined that such reimbursements will not have an adverse impact on the financial viability or overall implementation of the Project. The amount due to participants under the reimbursement policy as of December 31, 2021, was \$8,806,665.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount of expenditures, if any, which may be disallowed by the grantor, cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority has outstanding contracts related to EIR/EIS and feasibility study. The remaining commitments on these contracts as of December 31, 2021, were minimal as the contracts can be canceled with a thirty-day notice.

NOTE 7: COVID 19

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent with transmission rates as yet unknown. Although the financial impact on the Authority thus far has been minimal, the long-term economic impact in the State of California as yet has not been determined and therefore any potential impact on the Authority is not yet known.

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 1, 2022, the date which the financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**SITES PROJECT AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Membership Admin/Authority	\$ 505,000	\$ 505,000	\$ 505,000	\$ -
Interest revenue	-	-	1,290	1,290
 Total revenues	<u>505,000</u>	<u>505,000</u>	<u>506,290</u>	<u>1,290</u>
EXPENDITURES				
Current:				
Accounting services	10,000	10,000	6,699	3,301
Audit fees	5,000	5,000	4,811	189
Administrative support	16,000	16,000	14,643	1,357
Insurance	10,000	10,000	4,672	5,328
Office expenses	10,000	10,000	7,908	2,092
Dues and Subscriptions	18,000	18,000	15,868	2,132
Professional fees	430,000	430,000	388,049	41,951
Website, computer support	6,000	6,000	3,231	2,769
 Total expenditures	<u>505,000</u>	<u>505,000</u>	<u>445,881</u>	<u>59,119</u>
 Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,409</u>	<u>\$ 60,409</u>

See notes to required supplementary information.

**SITES PROJECT AUTHORITY
RESERVOIR FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Membership Water	\$ 7,860,000	\$ 6,654,800	\$ 6,654,800	\$ -
Grant revenue	9,502,000	11,828,000	14,540,276	2,712,276
Interest revenue	-	-	32,155	32,155
Other revenue	-	-	50,000	50,000
Total revenues	17,362,000	18,482,800	21,277,231	2,794,431
EXPENDITURES				
Current:				
Accounting services	30,000	28,000	26,794	1,206
Audit fees	12,000	12,000	11,049	951
Administrative support	60,000	60,000	58,574	1,426
Office expenses	2,000	1,300	458	842
Rent expense	10,000	7,500	7,500	-
Dues and Subscriptions	5,000	4,000	3,967	33
Professional fees	17,230,000	18,357,000	18,388,981	(31,981)
Website, computer support	13,000	13,000	12,922	78
Total expenditures	17,362,000	18,482,800	18,510,245	(27,445)
Excess of revenues under expenditures	\$ -	\$ -	\$ 2,766,986	\$ 2,766,986

See notes to required supplementary information.

SITES PROJECT AUTHORITY

Notes to the Required Supplementary Information
December 31, 2021

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared on the cash and expenditures or encumbrances basis. Revenues are budgeted in the year receipt is expected; expenditures are budgeted in the year that the applicable warrant requisitions are expected to be issued. The budget and actual financial statements are reported on the above basis, with no material differences between them.

Annual budget requests are submitted by the Authority's staff to the board of directors for preliminary review and approval. After public hearing, a final budget is approved by the board of directors, with a resolution adopting said budget. Copies of the approved budget are sent to all required agencies.

OTHER REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Sites Project Authority
Maxwell, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Sites Project Authority, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 1, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Sites Project Authority
Maxwell, California

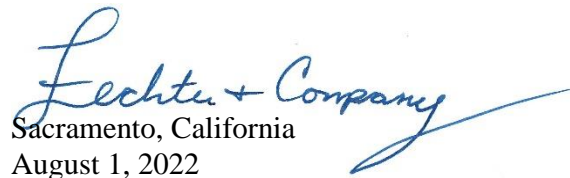
Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company
Certified Public Accountants


Sacramento, California
August 1, 2022

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Sites Project Authority
Maxwell, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Sites Project Authority’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sites Project Authority’s major federal programs for the year ended December 31, 2021. Sites Project Authority’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Sites Project Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Sites Project Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Sites Project Authority’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Sites Project Authority’s federal programs.

To the Board of Directors
Sites Project Authority
Maxwell, California

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Sites Project Authority’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Sites Project Authority’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Sites Project Authority ’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Sites Project Authority ’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Sites Project Authority’s internal control over compliance.

Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

To the Board of Directors
Sites Project Authority
Maxwell, California

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Fechter & Company,
Certified Public Accountants


Sacramento, California
August 1, 2022

SITES PROJECT AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards
December 31, 2021

NOTE 1: REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Authority. The Authority's reporting entity is defined in Note 1 to the basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

NOTE 2: BASIS OF ACCOUNTING

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Any Federal funds expended in excess of Federal funds received are recorded as a receivable from the grantor agency and any Federal funds received in excess of Federal funds expended are recorded as a payable to the grantor agency.

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

The amounts reported in the accompanying schedule of expenditures of federal awards agree, in all material respects, to amounts reported within the Authority's financial statements. Federal award revenues and expenditures are reported principally in the Authority's financial statements as Reservoir Fund.

NOTE 4: LOANS OUTSTANDING WITH CONTINUING COMPLIANCE REQUIREMENT

No program had federally-funded loans with a continuing compliance requirement outstanding at December 31, 2021.

NOTE 5: SUBRECIPIENTS

The federal programs shown in the accompanying Schedule of Expenditures of Federal Awards had no subrecipients during the year ended December 31, 2021.

NOTE 6: INDIRECT COST RATE

This program provides that the Authority shall receive direct administrative costs in accordance with 2 CFR 200.413 instead of indirect costs under 200.414(f). Since only direct administrative costs are allowable under this grant, the Authority is not eligible for the 10-percent de minimus indirect cost rate under the *Uniform Guidance*.

SITES PROJECT AUTHORITY

Schedule of Findings and Questioned Costs
December 31, 2021

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	No
Non-compliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	No
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported under the Uniform Guidance	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.574	Sites Reservoir Project Planning

Dollar threshold used to distinguish Between Type A and Type B programs	\$750,000
Auditee qualifies as low-risk auditee under the Uniform Guidance	Yes

SECTION 2 - FINANCIAL STATEMENT FINDINGS

No findings reported

SITES PROJECT AUTHORITY

Schedule of Findings and Questioned Costs
December 31, 2021

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings reported

SECTION 4 – SUMMARY OF PRIOR YEAR FINDINGS

No findings reported

Attachment B

**SITES PROJECT AUTHORITY
MANAGEMENT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2021**

SITES PROJECT AUTHORITY

Management Report
For the Year Ended December 31, 2021

Table of Contents

	<u>Page</u>
Introduction.....	1
Required communication	2-4

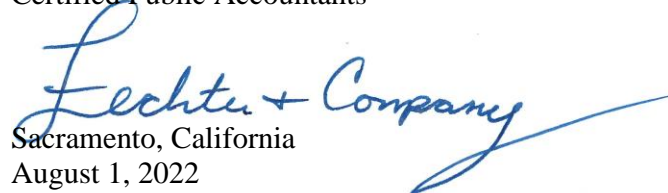
Board of Directors of the
Sites Project Authority
Maxwell, California

In planning and performing our audit of the financial statements of the Sites Project Authority for the year ended December 31, 2021, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We thank the Authority's staff for its cooperation on this audit.

Fechter & Company,
Certified Public Accountants


Sacramento, California
August 1, 2022

SITES PROJECT AUTHORITY
Required Communications
For the Year Ended December 31, 2021

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 10, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our audit did not disclose any sensitive estimates affecting the financial statements.

SITES PROJECT AUTHORITY
Required Communications
For the Year Ended December 31, 2021

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the Authority's financial reporting process:

Audit adjustments for the year ended December 31, 2021:

- To record grant receivables of \$5,670,505 for grant revenue that pertained to the year ended December 31, 2021.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [DATE].

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

SITES PROJECT AUTHORITY
Required Communications
For the Year Ended December 31, 2021

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Sites Project Authority and is not intended to be, and should not be, used by anyone other than these specified parties.



August 1, 2022

Fechter & Company
Certified Public Accountants
3445 American River Drive, Suite A
Sacramento, CA 95864

This representation letter is provided in connection with your audit of the financial statements of the Sites Project Authority, which comprise the respective financial position of the governmental activities and each major fund, as of December 31, 2021, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of August 1, 2022, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 10, 2022, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) We acknowledge the adjustments included in the financial statements as listed in ATTACHMENT 1. We will record these adjustments to the District's books and records.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Sites Project Authority is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - 1) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - 2) Additional information that you have requested from us for the purpose of the audit.
 - 3) Unrestricted access to persons within the Sites Project Authority from whom you determined it necessary to obtain audit evidence.
 - 4) Minutes of the meetings of Sites Project Authority or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the Sites Project Authority and involves—
 - o Management,
 - o Employees who have significant roles in internal control, or
 - o Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Sites Project Authority's financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the Sites Project Authority's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 22) The Sites Project Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 23) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 25) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

- 26) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 27) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 28) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating Joe Trapasso, program operations manager, who possesses suitable skill, knowledge, or experience; to evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 29) The Sites Project Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 30) The Sites Project Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 31) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 32) The financial statements properly classify all funds and activities in accordance with [GASB Statement No. 34](#).
- 33) All funds that meet the quantitative criteria in [GASBS Nos. 34](#) and [37](#) for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 34) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 35) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 36) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 37) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 38) We have appropriately disclosed the Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 39) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 40) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

41) With respect to federal award programs:

- 1) We are responsible for understanding and complying with and have complied with, the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards.
- 2) We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards (SEFA) and related disclosures in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- 3) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- 4) We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- 5) We are responsible for establishing, designing, implementing, and maintaining, and have established, designed, implemented, and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- 6) We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- 7) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- 8) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement* (including its Addendum), relating to federal awards.
- 9) We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- 10) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- 11) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E) and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, if applicable.
- 12) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- 13) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

- 14) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- 15) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- 16) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
- 17) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- 18) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- 19) We have charged costs to federal awards in accordance with applicable cost principles.
- 20) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- 21) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- 22) We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

Signature: Joe Trapasso

Signature: Jamie Trayham

Title: Program Operations Manager

Title: Authority Treasurer

Client: SITES PROJECT AUTHORITY
Report: Adjusting Journal Entries
Date: 12/31/2021

Account	Description	Debit	Credit	Net Income Effect
AJE01				
To accrue additional grant receivables at year-end.				
20-12050	Grants Receivable:California Water Commission	4,231,985.00	0.00	
20-43000	Grant revenue	0.00	4,231,985.00	
20-12051	Grants Receivable:Federal WIIN Funding	1,438,520.00	0.00	
20-43100	Federal WIIN Funding	0.00	1,438,520.00	
Total		<u>5,670,505.00</u>	<u>5,670,505.00</u>	<u>5,670,505.00</u>
GRAND TOTAL		<u>5,670,505.00</u>	<u>5,670,505.00</u>	<u>5,670,505.00</u>